Tennessee Board of Regents
East Tennessee State University

For the Year Ended
June 30, 2001

Arthur A. Hayes, Jr., CPA, JD, CFE
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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 21, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Paul E. Stanton, Jr., President
East Tennessee State University
Campus Box 70734
Johnson City, Tennessee 37614-0002

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University, for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
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State of Tennessee

Audit Highlights

Comptroller of the Treasury   Division of State Audit

Financial and Compliance Audit
East Tennessee State University
For the Year Ended June 30, 2001

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AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

COMPLIANCE FINDINGS

The University Did Not Identify Unofficial Withdrawals on a Timely Basis
The university did not identify Title IV financial aid recipients who unofficially withdrew during the spring 2001 and summer 2001 semesters until October of 2001. The failure to identify financial aid recipients who unofficially withdraw on a timely basis could result in funds not being returned to Title IV programs or lenders within the time frame specified by federal regulations (page 6).

The University Did Not Follow Proper Acceleration Procedures for Perkins Loans
For 13 of 25 borrowers in default who were tested, the university did not send the intent to accelerate notice at least 30 days in advance. The intent letters were dated from 8 to 28 days prior to the loan being accelerated. Acceleration means making payable immediately the entire outstanding balance of the loan, including interest and any applicable late charges or collection fees (page 7).

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2001

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Tennessee Board of Regents
East Tennessee State University
For the Year Ended June 30, 2001

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, East Tennessee State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated,* which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated,* authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

East Tennessee State University was established by an act of the General Assembly in 1909 as East Tennessee State Normal School. In 1924, the name was changed to East Tennessee State Teachers College; in 1930, to State Teachers College, Johnson City; and in 1943, to East Tennessee State College. In 1963, by an act of the General Assembly, East Tennessee College was granted university status, and its name was changed to East Tennessee State University.

The university has nine colleges and schools: College of Arts and Sciences, College of Business, College of Education, College of Public and Allied Health, School of Graduate Studies, School of Continuing Studies, College of Medicine, College of Applied Science and Technology, and College of Nursing. East Tennessee State University is officially authorized to grant 13 undergraduate and 16 graduate degrees.

ORGANIZATION

The governance of East Tennessee State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. East Tennessee State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Immaterial instances of noncompliance, along with recommendations and management's responses, are included in the findings and recommendations.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

November 1, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 1, 2001. As discussed in Note 10 to the financial statements, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 16, the university did not capitalize an $18 million expenditure, and the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

FINDINGS AND RECOMMENDATIONS

1. <u>The university did not identify unofficial withdrawals on a timely basis</u>

Finding

The university did not identify Title IV financial aid recipients who unofficially withdrew during the spring 2001 and summer 2001 semesters until October of 2001. The 2000-2001 *Student Financial Aid Handbook*, volume 2, page 123, states:

> . . . to ensure that Title IV funds are returned within a reasonable period of time, a school must determine the withdrawal date (for a student who withdrew without providing notification) within 30 calendar days from the earlier of (1) the end of the payment period or period of enrollment, as applicable, (2) the end of the academic year, or (3) the end of the student's educational program.

The university changed its procedures for identifying unofficial withdrawals in the spring semester of 2001. This change and a resulting miscommunication between university employees led to the delay.

The failure to identify financial aid recipients who unofficially withdraw on a timely basis could result in funds not being returned to Title IV programs or lenders within the timeframe specified by federal regulations.

Recommendation

University personnel should ensure that financial aid recipients who unofficially withdraw are identified on a timely basis and that Title IV funds are returned as appropriate.

Management's Comment

We concur with the finding and recommendation. All unofficial withdrawals for Spring 2001 and Summer 2001 were identified and funds were returned to the federal government as required. This was done prior to the end of the audit. We have been assured by Academic Affairs that additional information was provided to faculty to ensure that reporting of grades for students who quit attending is appropriate. Programs were written to evaluate the grades of all students who had financial aid to identify unofficial withdrawals. Using these new methods, unofficial withdrawals for Fall 2001 were identified and funds were returned within the required time period. These procedures will be used to ensure that the identification of all unofficial withdrawals and the return of funds are done on a timely basis in the future.

2. <u>The university did not follow proper acceleration procedures for Perkins Loans</u>

Finding

The university did not follow proper acceleration procedures for Perkins Loans. According to the 2000-2001 *Student Financial Aid (SFA) Handbook*, volume 5, page 69, ". . . if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance." The *SFA Handbook* defines loan acceleration as follows, "Acceleration means making payable immediately the entire outstanding balance, including interest and any applicable late charges or collection fees." Acceleration applies to students with loans that are in default.

For 13 of 25 borrowers in default who were tested, the university did not send the intent to accelerate notice at least 30 days in advance. The intent letters were dated from 8 to 28 days prior to the loan being accelerated. In addition, the loans of six of these students were accelerated before the date indicated on the intent letter.

According to university personnel, the software used to manage the Perkins Loans was not properly generating the intent to accelerate letters. Therefore, these letters were prepared later by university employees, and a full thirty-day notice was not given.

Perkins Loan borrowers were not provided sufficient notice in accordance with federal regulations.

Recommendation

University personnel should ensure that Perkins Loan acceleration procedures are properly followed.

Management's Comment

We concur with the finding and recommendation. As noted in the finding, this issue was the result of software changes we received from our vendor. These issues have been resolved and acceleration letters are being produced on a timely basis.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report

November 1, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of East Tennessee State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, East Tennessee State University, as of June 30, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 16, the university did not capitalize an $18 million expenditure, and the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2001, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Exhibit A

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

ASSETS	June 30, 2001	June 30, 2000
Current funds:		
Unrestricted:		
General:		
Cash and cash equivalents (Notes 2 and 3)	$ 17,315,995.70	$ 16,563,008.71
Accounts receivable (net of allowance of $1,662,479.15 at June 30, 2001, and $2,074,363.82 at June 30, 2000)	5,310,179.85	6,240,203.09
Inventories	686,677.44	748,192.42
Prepaid expenses and deferred charges	665,032.07	581,770.83
Other assets	13,746.00	10,246.00
Total general	23,991,631.06	24,143,421.05
Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	1,549,279.35	1,317,474.66
Accounts receivable (net of allowance of $63,091.35 at June 30, 2001, and $111,431.40 at June 30, 2000)	243,321.27	224,347.88
Total auxiliary enterprises	1,792,600.62	1,541,822.54
Total unrestricted	25,784,231.68	25,685,243.59
Restricted:		
Cash and cash equivalents (Notes 2 and 3)	10,204,593.07	2,605,988.66
Accounts and grants receivable (net of allowance of $94,512.15 at June 30, 2001, and $77,911.69 at June 30, 2000)	4,479,160.73	6,581,864.41
Due from endowment and similar funds	59.45	45.01
Total restricted	14,683,813.25	9,187,898.08
Total current funds	$ 40,468,044.93	$ 34,873,141.67
Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 377,155.73	$ 1,354,928.40
Notes receivable (net of allowance of $1,207,186.04 at June 30, 2001, and $1,248,652.91 at June 30, 2000)	8,211,002.49	6,913,913.56
Accrued interest receivable	303,173.38	269,534.16
Total loan funds	$ 8,891,331.60	$ 8,538,376.12

LIABILITIES AND FUND BALANCES	June 30, 2001	June 30, 2000
Current funds:		
Unrestricted:		
General:		
Liabilities:		
Accounts payable	$ 2,329,586.70	$ 3,126,678.21
Accrued liabilities	3,135,910.39	2,543,193.60
Student deposits	22,040.65	21,340.65
Deferred revenue	5,364,502.73	4,866,790.08
Checks payable	734,365.45	854,106.54
Compensated absences	6,125,923.78	5,687,558.33
Total liabilities	17,712,329.70	17,099,667.41
Fund balances:		
Nondiscretionary allocations:		
Allocation for working capital	5,133,694.52	6,180,643.61
Allocation for encumbrances	1,460,512.69	1,185,837.60
Allocation for designated state appropriations	168,630.55	84,442.81
Allocation for designated student fees	808,254.69	366,753.00
Discretionary allocations:		
Allocation for utility fluctuation	400,000.00	200,000.00
Allocation for budgetary reserve	2,860,600.00	3,724,300.00
Allocation for unexpended contracts	536,842.91	488,044.13
Allocation for research/special programs	233,453.63	490,395.82
Allocation for compensated absences	(6,125,923.78)	(5,687,558.33)
Unallocated	803,236.15	10,895.00
Total fund balances	6,279,301.36	7,043,753.64
Total general	23,991,631.06	24,143,421.05
Auxiliary enterprises:		
Liabilities:		
Accounts payable	4,461.59	13,195.86
Accrued liabilities	11,045.92	5,722.05
Student deposits	297,060.93	283,206.08
Deferred revenue	333,762.65	351,861.70
Compensated absences	99,174.17	70,576.71
Total liabilities	745,505.26	724,562.40
Fund balances:		
Nondiscretionary allocation:		
Allocation for working capital	112,446.53	124,778.45
Discretionary allocation:		
Allocation for contingencies	297,612.04	280,290.76
Allocation for compensated absences	(99,174.17)	(70,576.71)
Unallocated	736,210.96	482,767.64
Total fund balances	1,047,095.36	817,260.14
Total auxiliary enterprises	1,792,600.62	1,541,822.54
Total unrestricted	25,784,231.68	25,685,243.59
Restricted:		
Liabilities:		
Accounts payable	202,425.20	156,314.08
Accrued liabilities	191,235.10	164,501.38
Compensated absences	1,051,177.69	905,350.37
Total liabilities	1,444,837.99	1,226,165.83
Fund balance	13,238,975.26	7,961,732.25
Total restricted	14,683,813.25	9,187,898.08
Total current funds	$ 40,468,044.93	$ 34,873,141.67
Loan funds:		
Fund balances:		
U.S. government grants refundable	$ 7,132,829.18	$ 6,836,851.20
University funds:		
Restricted - matching	1,226,268.31	1,139,732.29
Restricted - other	532,234.11	561,792.63
Total loan funds	$ 8,891,331.60	$ 8,538,376.12

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

ASSETS	June 30, 2001	June 30, 2000
Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 4,500,932.75	$ 4,274,801.46
Investments (Notes 3 and 4)	2,010,000.00	2,010,000.00
Accrued interest receivable	31,081.23	25,716.11
Total endowment and similar funds	$ 6,542,013.98	$ 6,310,517.57
Plant funds:		
Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	$ 1,810,592.38	$ 2,581,199.42
LGIP deposit - capital projects (Note 1)	2,735,879.10	2,740,408.44
Accounts receivable	372,943.00	-
Total unexpended plant	4,919,414.48	5,321,607.86
Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	13,084,945.61	14,407,038.79
Due from unexpended plant funds	-	589,480.00
Other assets	353,070.46	373,474.62
Total renewals and replacements	13,438,016.07	15,369,993.41
Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	2,150,655.90	1,589,868.19
Interest rate reserve fund with TSSBA	35,387.95	-
Accounts receivable	130,459.86	130,459.86
Accrued interest receivable	8,875.62	4,179.47
Total retirement of indebtedness	2,325,379.33	1,724,507.52
Investment in plant:		
Land	4,643,209.24	4,528,209.24
Buildings	124,992,337.10	124,931,947.45
Improvements other than buildings	14,118,198.35	11,424,834.29
Equipment	24,748,032.27	23,872,945.36
Library books	31,130,496.00	30,671,712.00
Other library holdings	22,885,414.98	22,690,681.80
Construction in progress	30,186,912.19	21,282,050.18
Total investment in plant	252,704,600.13	239,402,380.32
Total plant funds	$ 273,387,410.01	$ 261,818,489.11
Agency funds:		
Cash and cash equivalents (Notes 2 and 3)	$ 425,657.93	$ 508,992.52
Total agency funds	$ 425,657.93	$ 508,992.52

LIABILITIES AND FUND BALANCES	June 30, 2001	June 30, 2000
Endowment and similar funds:		
Liabilities:		
Due to restricted current funds	$ 59.45	$ 45.01
Fund balances:		
Endowment	38,984.83	38,753.47
Quasi-endowment - unrestricted	6,502,969.70	6,271,719.09
Total fund balances	6,541,954.53	6,310,472.56
Total endowment and similar funds	$ 6,542,013.98	$ 6,310,517.57
Plant funds:		
Unexpended plant:		
Liabilities:		
Accounts payable	$ 2,102.25	$ 861.00
Due to renewals and replacements funds	-	589,480.00
Total liabilities	2,102.25	590,341.00
Fund balances:		
Unrestricted (Note 5)	4,522,267.78	4,731,266.86
Restricted	395,044.45	-
Total fund balances	4,917,312.23	4,731,266.86
Total unexpended plant	4,919,414.48	5,321,607.86
Renewals and replacements:		
Liabilities:		
Accounts payable	10,565.65	199,313.16
Other liabilities	5,378.00	7,245.03
Total liabilities	15,943.65	206,558.19
Fund balance:		
Unrestricted (Note 5)	13,422,072.42	15,163,435.22
Total renewals and replacements	13,438,016.07	15,369,993.41
Retirement of indebtedness:		
Liabilities:		
Accrued interest payable	263,318.16	189,266.99
Accrued liabilities	-	9,810.76
Total liabilities	263,318.16	199,077.75
Fund balance:		
Unrestricted	2,062,061.17	1,525,429.77
Total retirement of indebtedness	2,325,379.33	1,724,507.52
Investment in plant:		
Liabilities:		
Loans payable (Note 7)	2,440,505.79	2,521,162.39
TSSBA indebtedness (Note 7)	22,414,443.31	15,768,893.99
Total liabilities	24,854,949.10	18,290,056.38
Fund balance:		
Net investment in plant	227,849,651.03	221,112,323.94
Total investment in plant	252,704,600.13	239,402,380.32
Total plant funds	$ 273,387,410.01	$ 261,818,489.11
Agency funds:		
Deposits held in custody for others	$ 425,657.93	$ 508,992.52
Total agency funds	$ 425,657.93	$ 508,992.52

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 135,452,989.18	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	7,211,268.91	-	-	-	-	-	-	-
Tuition and fees	-	84,963.62	-	-	-	-	-	-
State appropriations	-	472,900.00	-	-	3,134,172.06	-	-	-
Federal grants and contracts	-	24,558,974.94	240,435.00	-	-	-	94,636.00	-
State grants and contracts	-	6,745,049.40	-	-	-	-	-	-
Local grants and contracts	-	98,586.91	-	-	-	-	-	-
Private gifts, grants, and contracts	-	36,960,452.91	4,558.33	-	400,000.00	-	-	976,007.99
Endowment income	-	893,446.94	-	-	-	-	-	-
Investment income	-	7,692.51	46,036.35	231,481.97	152,875.76	434,654.24	317,551.91	-
Interest on loans receivable	-	-	192,475.77	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	7,856,406.00	-	-	-
Equipment use charges	-	-	-	-	-	192,700.00	-	-
Expended for plant facilities (including $3,452,666.46 charged to current fund expenditures)	-	-	-	-	-	-	-	15,669,760.76
Retirement of indebtedness	-	-	-	-	-	-	-	1,304,785.45
Other	-	-	247,006.57	-	750.00	116,349.94	323,617.33	399,681.31
Total revenues and other additions	142,664,258.09	69,822,067.23	730,512.02	231,481.97	11,544,203.82	743,704.18	735,805.24	18,350,235.51
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	135,909,917.16	62,898,402.95	-	-	-	-	-	-
Auxiliary enterprise expenditures	4,722,789.90	24,931.71	-	-	-	-	-	-
Indirect costs recovered	-	1,366,702.41	-	-	-	-	-	-
Refunded to grantors	-	32,714.76	62,509.52	-	-	-	-	-
Loan cancellations and write-offs	-	-	141,737.47	-	-	-	-	-
Administrative and collection costs	-	-	215,325.45	-	-	-	33,832.38	-
Expended for plant facilities	-	-	-	-	11,452,228.95	764,865.35	-	-
Expended for noncapital items	-	-	-	-	1,031,516.17	972,849.73	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,304,785.45	-
Interest on indebtedness	-	-	-	-	-	-	1,190,416.72	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,164,345.67
Library holdings revaluation	-	-	-	-	-	-	-	1,578,884.58
Increase in indebtedness	-	-	-	-	-	-	-	7,869,678.17
Other	-	-	38,129.10	-	-	-	-	-
Total expenditures and other deductions	140,632,707.06	64,322,751.83	457,701.54	-	12,483,745.12	1,737,715.08	2,529,034.55	11,612,908.42
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Loan fund matching grant	(80,145.00)	-	80,145.00	-	-	-	-	-
Principal and interest	(2,064,888.74)	-	-	-	-	-	2,064,888.74	-
Nonmandatory:								
Unrestricted current funds	2,375,016.40	(222,072.39)	-	-	(523,304.01)	(1,629,640.00)	-	-
Unexpended plant	(623,600.00)	-	-	-	1,828,080.00	(615,000.00)	(589,480.00)	-
Renewals and replacements	(1,319,813.92)	-	-	-	(179,189.32)	1,552,003.24	(53,000.00)	-
Retirement of indebtedness	(852,736.83)	-	-	-	-	(54,715.14)	907,451.97	-
Total transfers	(2,566,168.09)	(222,072.39)	80,145.00	-	1,125,586.67	(747,351.90)	2,329,860.71	-
Net increases (decreases) for the year	(534,617.06)	5,277,243.01	352,955.48	231,481.97	186,045.37	(1,741,362.80)	536,631.40	6,737,327.09
Fund balances at beginning of year	7,861,013.78	7,961,732.25	8,538,376.12	6,310,472.56	4,731,266.86	15,163,435.22	1,525,429.77	221,112,323.94
Fund balances at end of year	$ 7,326,396.72	$ 13,238,975.26	$ 8,891,331.60	$ 6,541,954.53	$ 4,917,312.23	$ 13,422,072.42	$ 2,062,061.17	$ 227,849,651.03

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	$ 130,222,130.54	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Auxiliary enterprise revenues	7,000,592.51	-	-	-	-	-	-	-
Tuition and fees	-	87,492.00	-	-	-	-	-	-
State appropriations	-	459,200.00	-	-	3,183,922.49	-	-	-
Federal grants and contracts	-	22,606,277.89	245,986.00	-	-	-	94,636.00	-
State grants and contracts	-	5,760,131.36	-	-	-	-	-	-
Private gifts, grants, and contracts	-	15,076,896.03	24,992.13	-	25,965.43	-	-	519,045.82
Endowment income	-	820,482.31	-	-	-	-	-	-
Investment income	-	121,362.23	33,464.46	94,215.08	169,533.34	717,485.63	236,819.74	-
Equipment use charges	-	-	-	-	-	147,700.00	-	-
Interest on loans receivable	-	-	218,183.33	-	-	-	-	-
Tennessee State School Bond Authority debt proceeds	-	-	-	-	1,038,283.88	-	-	-
Expended for plant facilities (including $2,299,617.22 charged to current fund expenditures)	-	-	-	-	-	-	-	7,143,845.89
Library holdings revaluation	-	-	-	-	-	-	-	215,486.54
Retirement of indebtedness	-	-	-	-	-	-	-	1,192,101.97
Other	-	-	244,783.89	-	2,000.00	16,100.90	260,919.75	103,702.14
Total revenues and other additions	137,222,723.05	44,931,841.82	767,409.81	94,215.08	4,419,705.14	881,286.53	592,375.49	9,174,182.36
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	125,560,626.37	38,776,113.23	-	-	-	-	-	-
Auxiliary enterprise expenditures	4,706,904.78	18,321.74	-	-	-	-	-	-
Indirect costs recovered	-	1,280,920.38	-	-	-	-	-	-
Refunded to grantors	-	90,337.12	69,846.22	-	-	-	-	-
Loan cancellations and write-offs	-	-	164,968.05	-	-	-	-	-
Administrative and collection costs	-	-	109,381.74	-	-	-	38,780.86	-
Provision for doubtful accounts	-	-	16,479.47	-	-	-	-	-
Expended for plant facilities	-	-	-	-	3,798,191.80	866,862.20	179,174.67	-
Expended for noncapital items	-	-	-	-	2,776,023.25	654,261.77	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,192,101.97	-
Interest on indebtedness	-	-	-	-	-	-	750,756.72	-
Disposal of plant facilities	-	-	-	-	-	-	-	4,605,892.11
Increase in indebtedness	-	-	-	-	-	-	-	1,038,283.88
Other	-	-	7,760.69	34,550.03	-	-	-	-
Total expenditures and other deductions	130,267,531.15	40,165,692.47	368,436.17	34,550.03	6,574,215.05	1,521,123.97	2,160,814.22	5,644,175.99
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Loan fund matching grant	(81,996.00)	-	81,996.00	-	-	-	-	-
Principal and interest	(1,803,775.00)	-	-	-	-	-	1,803,775.00	-
Nonmandatory:								
Unrestricted current funds	320,375.05	(185,375.05)	-	-	(55,000.00)	(80,000.00)	-	-
Endowment funds	-	-	-	4,000,000.00	-	(4,000,000.00)	-	-
Unexpended plant	(1,212,160.00)	-	-	-	3,166,680.00	(160,000.00)	(1,794,520.00)	-
Renewals and replacements	(1,322,033.57)	-	-	-	(425,084.61)	1,897,118.18	(150,000.00)	-
Retirement of indebtedness	(1,351,001.44)	-	-	-	-	(87,040.28)	1,438,041.72	-
Total transfers	(5,450,590.96)	(185,375.05)	81,996.00	4,000,000.00	2,686,595.39	(2,429,922.10)	1,297,296.72	-
Net increases (decreases) for the year	1,504,600.94	4,580,774.30	480,969.64	4,059,665.05	532,085.48	(3,069,759.54)	(271,142.01)	3,530,006.37
Fund balances at beginning of year	6,356,412.84	3,380,957.95	8,057,406.48	2,250,807.51	4,199,181.38	18,233,194.76	1,796,571.78	235,694,507.22
Cumulative effect of change in accounting principle (Note 10)	-	-	-	-	-	-	-	(18,112,189.65)
Fund balances at beginning of year, restated	6,356,412.84	3,380,957.95	8,057,406.48	2,250,807.51	4,199,181.38	18,233,194.76	1,796,571.78	217,582,317.57
Fund balances at end of year	$ 7,861,013.78	$ 7,961,732.25	$ 8,538,376.12	$ 6,310,472.56	$ 4,731,266.86	$ 15,163,435.22	$ 1,525,429.77	$ 221,112,323.94

The notes to the financial statements are an integral part of this statement.

Exhibit D

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 37,076,869.64	$ 84,963.62	$ 37,161,833.26
State appropriations	75,936,500.00	472,900.00	76,409,400.00
Federal grants and contracts	1,135,938.14	24,558,974.94	25,694,913.08
State grants and contracts	96,802.87	6,745,049.40	6,841,852.27
Local grants and contracts	2,042,843.22	98,586.91	2,141,430.13
Private gifts, grants, and contracts	234,757.40	36,960,452.91	37,195,210.31
Endowment income	163,256.84	893,446.94	1,056,703.78
Investment income	1,444,501.59	7,692.51	1,452,194.10
Sales and services of educational activities	15,332,438.34	-	15,332,438.34
Sales and services of auxiliary enterprises	7,211,268.91	-	7,211,268.91
Other sources	1,989,081.14	-	1,989,081.14
Total current revenues	142,664,258.09	69,822,067.23	212,486,325.32
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	82,920,737.66	30,635,867.44	113,556,605.10
Research	2,246,705.97	6,881,934.59	9,128,640.56
Public service	1,016,476.87	10,723,290.20	11,739,767.07
Academic support	13,695,874.84	2,386,424.17	16,082,299.01
Student services	11,260,821.44	1,426,922.29	12,687,743.73
Institutional support	11,610,014.15	1,035,020.67	12,645,034.82
Operation and maintenance of plant	11,256,974.51	8,745.25	11,265,719.76
Scholarships and fellowships	1,902,311.72	9,800,198.34	11,702,510.06
Total educational and general expenditures	135,909,917.16	62,898,402.95	198,808,320.11
Mandatory transfers:			
Loan fund matching grant	80,145.00	-	80,145.00
Principal and interest	1,018,988.87	-	1,018,988.87
Nonmandatory transfers:			
Auxiliary enterprises	(307,600.00)	-	(307,600.00)
Restricted funds	(222,072.39)	-	(222,072.39)
Unexpended plant	100,295.99	-	100,295.99
Renewals and replacements	(1,214,970.00)	-	(1,214,970.00)
Retirement of indebtedness	852,736.83	-	852,736.83
Total educational and general expenditures and transfers	136,217,441.46	62,898,402.95	199,115,844.41
Auxiliary enterprises:			
Expenditures	4,722,789.90	24,931.71	4,747,721.61
Mandatory transfer:			
Principal and interest	1,045,899.87	-	1,045,899.87
Nonmandatory transfers:			
Educational and general	307,600.00	-	307,600.00
Renewals and replacements	905,143.92	-	905,143.92
Total auxiliary enterprises	6,981,433.69	24,931.71	7,006,365.40
Total expenditures and transfers	143,198,875.15	62,923,334.66	206,122,209.81
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Indirect costs recovered	-	(1,366,702.41)	(1,366,702.41)
Refunded to grantors	-	(32,714.76)	(32,714.76)
Nonmandatory transfer to unrestricted current funds	-	(222,072.39)	(222,072.39)
Net increase (decrease) in fund balances	$ (534,617.06)	$ 5,277,243.01	$ 4,742,625.95

The notes to the financial statements are an integral part of this statement.

Exhibit E

TENNESSEE BOARD OF REGENTS
EAST TENNESSEE STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	$ 34,989,127.88	$ 87,492.00	$ 35,076,619.88
State appropriations	72,837,100.00	459,200.00	73,296,300.00
Federal grants and contracts	947,280.64	22,606,277.89	23,553,558.53
State grants and contracts	64,255.59	5,760,131.36	5,824,386.95
Local grants and contracts	1,896,831.08	-	1,896,831.08
Private gifts, grants, and contracts	254,444.15	15,076,896.03	15,331,340.18
Endowment income	154,614.76	820,482.31	975,097.07
Sales and services of educational activities	15,786,932.30	-	15,786,932.30
Sales and services of auxiliary enterprises	7,000,592.51	-	7,000,592.51
Investment income	1,061,254.54	-	1,061,254.54
Other sources	2,230,289.60	121,362.23	2,351,651.83
Total current revenues	137,222,723.05	44,931,841.82	182,154,564.87
EXPENDITURES AND TRANSFERS			
Educational and general:			
Expenditures:			
Instruction	78,358,305.90	10,008,230.36	88,366,536.26
Research	1,747,530.10	6,534,181.37	8,281,711.47
Public service	1,032,082.45	7,849,179.84	8,881,262.29
Academic support	12,713,288.56	3,123,708.08	15,836,996.64
Student services	9,957,934.30	1,396,108.96	11,354,043.26
Institutional support	10,913,814.19	916,177.13	11,829,991.32
Operation and maintenance of plant	9,446,687.01	-	9,446,687.01
Scholarships and fellowships	1,390,983.86	8,948,527.49	10,339,511.35
Total educational and general expenditures	125,560,626.37	38,776,113.23	164,336,739.60
Mandatory transfers:			
Loan fund matching grant	81,996.00	-	81,996.00
Principal and interest	699,168.87	-	699,168.87
Nonmandatory transfers:			
Restricted funds	(185,375.05)	-	(185,375.05)
Unexpended plant	1,157,160.00	-	1,157,160.00
Renewals and replacements	44,361.00	-	44,361.00
Retirement of indebtedness	1,351,001.44	-	1,351,001.44
Total educational and general expenditures and transfers	128,708,938.63	38,776,113.23	167,485,051.86
Auxiliary enterprises:			
Expenditures	4,706,904.78	18,321.74	4,725,226.52
Mandatory transfer:			
Principal and interest	1,104,606.13	-	1,104,606.13
Nonmandatory transfer:			
Renewals and replacements	1,197,672.57	-	1,197,672.57
Total auxiliary enterprises	7,009,183.48	18,321.74	7,027,505.22
Total expenditures and transfers	135,718,122.11	38,794,434.97	174,512,557.08
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Indirect costs recovered	-	(1,280,920.38)	(1,280,920.38)
Refunded to grantors	-	(90,337.12)	(90,337.12)
Nonmandatory transfer to unrestricted current funds	-	(185,375.05)	(185,375.05)
Net increases in fund balances	$ 1,504,600.94	$ 4,580,774.30	$ 6,085,375.24

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or when all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include student housing, the university bookstore, food services, the university's post office, the Center for Physical Activity, and telecommunications. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP Deposit – Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market. Items are maintained on an average cost or first-in, first-out basis.

Checks Payable

These amounts represent the sum of checks written in excess of the university's checking account balance because of the university's use of a controlled disbursement account. Through the use of a controlled disbursement account, the university maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at $48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Interest Costs

The university has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2001, cash and cash equivalents consisted of $94,074.67 in bank accounts, $30,000.00 of petty cash on hand, and $51,295,733.75 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2000, cash and cash equivalents consisted of $28,855.16 in bank accounts, $30,000.00 of petty cash on hand, $41,687,445.65 in the State of Tennessee Local Government Investment Pool, and $3,457,000.00 in overnight repurchase agreements.

NOTE 3. DEPOSITS

The bank balances of certain deposits as of the balance sheet dates were entirely insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Investments are valued at fair value.

The university's investments at June 30, 2001, and June 30, 2000, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

Excess balances in the university's operating account, a "sweep" account, were automatically invested in overnight repurchase agreements during the years ended June 30, 2001, and June 30, 2000. The college had $3,457,000 invested in overnight repurchase agreements at June 30, 2000. This amount is classified as cash and cash equivalents on the university's balance sheet. The market value of the securities underlying the repurchase agreements at June 30, 2000, was $3,457,000. No excess funds were invested in overnight repurchase agreements at June 30, 2001.

Investments of this type are categorized to indicate the level of risk assumed by the university. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

The university's investments in overnight repurchase agreements at June 30, 2000, are reported as category 3. In all cases, during the years ended June 30, 2001, and June 30, 2000, the underlying securities were held by the counterparty.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to $320,441.28 for unexpended plant and $261,825.54 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to $589,956.03 for unexpended plant and $273,091.88 for renewals and replacements.

NOTE 6. CAPITAL LEASE

The university has entered into an Enhanced Use Lease Agreement with the United States Department of Veteran's Affairs for certain real property and buildings at the Veteran's Affairs Medical Center in Johnson City, Tennessee. The lease is for a period of thirty-five years. In lieu of lease payments, the university has assumed responsibility for all capital and recurring costs of maintaining the property covered by the agreement.

In conjunction with the lease, the university entered into a memorandum of agreement with the Department of Veteran's Affairs to construct a new building (the Basic Science Building) with joint funding from the State of Tennessee and the federal government. In accordance with the memorandum of agreement, the state provided $18 million to the federal government for its share of the construction costs. Upon completion, the Basic Science Building will be included under the provisions of the Enhanced Use Lease Agreement.

The university's leasing of the Basic Science Building will constitute a capital lease agreement. The lease term is substantially equal to the estimated useful life of the leased property. Accordingly, the university has capitalized $18 million of construction in progress at June 30, 2001.

NOTE 7. LOANS PAYABLE AND TSSBA INDEBTEDNESS

The Tennessee Board of Regents, on behalf of the university, borrowed funds for the construction of the East Tennessee State University Clinical Education Facility. The loan bears a simple interest rate of 7.15%, a face amount of $3,000,000, a minimum annual debt service of $260,919.73, and a due date of January 1, 2017. The balance owed by the university was $2,440,505.79 at June 30, 2001, and $2,521,162.39 at June 30, 2000.

Bond issues, with interest rates ranging from 3.0% to 5.5% for Tennessee State School Bond Authority bonds, are due serially to 2023 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was $456,606.61 at June 30, 2001, and $456,606.62 at June 30, 2000. The unexpended debt proceeds were $2,529.00 at June 30, 2001. The bonds payable amount reported was $14,479,920.30 at June 30, 2001, and $12,305,470.47 at June 30, 2000.

The university's debt service requirements to maturity for the loan payable and all bonds payable at June 30, 2001, are as follows:

Year Ending June 30	Principal	Interest	Total
2002	$ 1,084,515.81	$ 885,572.54	$ 1,970,088.35
2003	1,159,834.51	818,817.41	1,978,651.92
2004	1,216,476.27	762,792.44	1,979,268.71
2005	1,230,083.40	702,718.14	1,932,801.54
2006	697,162.05	641,925.52	1,339,087.57
2007-2023	11,532,354.05	5,010,943.13	16,543,297.18
	$16,920,426.09	$8,822,769.18	$25,743,195.27

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was $7,934,523.01 at June 30, 2001, and $3,463,423.52 at June 30, 2000.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 8. PENSION PLANS

A. Defined Benefit Plans

1. Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were

$1,817,069.99, $1,522,601.32, and $1,574,088.62. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was $5,291,894.45 for the year ended June 30, 2001, and $4,955,988.20 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from $1,000 to $5,000. As a result of the change, equipment decreased by $18,112,189.65.

NOTE 11. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of $8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of $8.731 million at June 30, 2001, and $7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the university was $326,257,000 for buildings and $101,064,100 for contents. At June 30, 2000, the scheduled coverage was $309,622,700 for buildings and $98,688,100 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated,* Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated,* Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

The university also provides health insurance coverage for residents associated with the James H. Quillen College of Medicine with the risk retained by the university. At June 30, 2001, there were 272 participants.

The plan establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Participants have 90 days to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made.

As discussed above, the university establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years:

	2001	2000
Unpaid claims at beginning of year	$988,474.92	$1,068,977.91
Incurred claims, provision for insured events of the current year	833,097.10	825,929.13
Total incurred claims expenses	1,821,572.02	1,894,907.04
Payments	989,808.51	906,432.12
Total unpaid claims at end of year	$831,763.51	$988,474.92

NOTE 12. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes $7,558,935.62 of federal financial assistance for students. These programs include, but are not limited to, Federal Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work-Study.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $34,528,476.39 at June 30, 2001, and $32,776,354.62 at June 30, 2000.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were $508,484.51 and for personal property were $121,684.68 for the year ended June 30, 2001. Comparative amounts for the year ended June 30, 2000, were $140,465.75 and $196,514.01. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled $2,129,388.21 for the Physical Activity Center and the Campus Mechanical Upgrade project, of which $951,886.46 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

Questioned Costs - The following costs were questioned as a result of the current-year audit.

Program	Amount Questioned
Federal Family Education Loan	$845.00

Final resolution of these questioned costs will be determined by the grantor.

NOTE 14. AFFILIATED ENTITIES NOT INCLUDED

The university is the sole beneficiary of the Medical Education Assistance Corporation (MEAC) and the East Tennessee State University Foundation. These private, nonprofit corporations are controlled by boards independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in MEAC's most recently audited financial report, at June 30, 2001, the corporation's assets totaled $12,198,328, liabilities were $3,785,953, and the fund balance amounted to $8,412,375. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled $22,465,396, liabilities were $139,061, and the fund balance amounted to $22,326,335.

NOTE 15. CHAIRS OF EXCELLENCE

The university had $19,933,444.67 on deposit at June 30, 2001, and $21,424,353.89 on deposit at June 30, 2000, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 16. PRIOR-YEAR RESTATEMENTS

The university did not capitalize an $18 million expenditure made in 1998. The expenditure should have been capitalized as it was to fund a building (the Basic Science Building) to be acquired via a capital lease with the United States Department of Veteran's Affairs. As a result, for the year ended June 30, 2000, the beginning fund balance for investment in plant funds has been increased by $18 million.

The university also undervalued its library holdings at June 30, 1999. As a result, for the year ended June 30, 2000, the beginning fund balance for investment in plant funds has been increased by $5,890,983.00

During the year ended June 30, 2001, the university also implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated by the amounts noted below:

Exhibit E

Restricted	Tuition and fees	$10,304.23
Restricted	State appropriations	$25,687.19
Restricted	Federal grants and contracts	$3,912,441.41
Restricted	State grants and contracts	$1,599,567.56
Restricted	Private gifts, grants, and contracts	$482,113.49
Restricted	Endowment income	$4,252.48
Restricted	Sales and services of auxiliary enterprises	$(18,321.74)
Restricted	Other sources	$121,362.23
Restricted	Excess of restricted receipts over transfers to revenues	$(6,137,406.85)

On the Statement of Current Funds Revenues, Expenditures, and Other Changes for the year ended June 30, 2000, in current restricted funds, the university also reclassified $2,497,640.26 of instruction expenditures to the public service and research functions.

NOTE 17. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities, an amendment of GASB Statement No. 34.* As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the university is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the university to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis, a statement of net assets or a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the university to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the university's financial statements.